

RatingsDirect®

Summary:

Industrial Independent School District, Texas; School State Program

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Industrial Independent School District, Texas; School State Program

Credit Profile

US\$8.0 mil unlt'd tax sch bldg bnds ser 2017 dtd 09/01/2017 due 08/15/2032

<i>Long Term Rating</i>	AAA/Stable	New
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<i>Underlying Rating for Credit Program</i>	A+/Stable	New
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Industrial Indpt Sch Dist unlt'd tax sch bldg bnds

<i>Long Term Rating</i>	AAA/Stable	Current
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<i>Underlying Rating for Credit Program</i>	A+/Stable	Affirmed
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Rationale

S&P Global Ratings assigned its 'AAA' program rating and 'A+' underlying rating to Industrial Independent School District (ISD), Texas' series 2017 unlimited-tax school building bonds. At the same time, we affirmed our 'A+' underlying rating on the district's existing unlimited-tax bonds. The outlook is stable.

The 'AAA' enhanced program rating reflects our view of the ISD's eligibility for, and participation in, the Texas Permanent School Fund bond guarantee program, which provides the security of a permanent fund of assets the district can use to meet debt service on bonds guaranteed by the program.

The series 2017 bonds are payable from an unlimited ad valorem tax levied on all taxable property in the district. Bond proceeds will be used to fund various projects that were authorized by the district's electorate at a May 2016 bond election.

The underlying rating reflects our opinion of the district's general creditworthiness including its:

- Strong median household effective buying income and extremely strong wealth per capita,
- Maintenance of very strong reserves, and
- Low debt burden as a percentage of market value with average amortization.

The preceding credit strengths are partially offset by our opinion of the district's somewhat limited economy and highly concentrated property tax base, which can result in cyclical declines in net taxable assessed value (AV), due to the significant presence of the oil-and-gas industry.

Economy

Industrial ISD serves an estimated population of 4,185. Median household income in the district is strong at 122% and per capita effective buying income is good at 107% of the national level. At \$166,477 capita, the fiscal 2017 market value totaling \$696.7 million is, in our opinion, extremely strong. Net taxable assessed value (AV) grew by a total of 6.3% since 2015 to \$696.7 million in fiscal 2017.

The district is located 112 miles southwest of downtown Houston, in Jackson and Victoria counties along the Texas Gulf Coast. The district's local economy is based on petrochemical and plastic product manufacturing, and the tax base is made up mostly of industrial values (33%) and land value (32%), followed by residential values (14%). The district's tax base is concentrated, in our view, with the top 10 taxpayers representing 60% of fiscal 2017 AV. The concentration is primarily due to Interplast Corp., a subsidiary of Formosa Plastics Group of Taiwan, and Formosa Plastics Corp., which represent approximately 35% and 13% of AV, respectively. Officials do not have any concerns with the leading taxpayers as the companies continue to expand within the neighboring county. Formosa plans to expand its facilities and to create approximately 140 jobs over the next several years. Although the district's property tax base has exposure to the petrochemical sector, it has not experienced significant volatility over the past few years. The district's tax base increased by 1.2% in fiscal 2017 due to an increase in property values and to new residential developments; the district currently has four residential developments in progress and expects to add approximately 60 new homes within the next several years. Furthermore, officials expect an increase in industrial and mineral values as one of the leading taxpayers has ramped up oil production. As such, officials expect the economy to remain stable.

Finance

A wealth equalization formula, based on property values and average daily attendance (ADA; property wealth per student), determines state funding for all school districts. Therefore, increases or decreases in ADA (enrollment) can lead to increases or decreases, respectively, in the amount of state revenue a district receives.

The district operates two elementary schools, one junior high school, and one high school. Enrollment has remained relatively stable, with the average enrollment of 1,220 students. Officials project roughly 1% annual enrollment growth in the near term. Officials believe that the district's current facilities and proposed upgrades, which are funded with the 2016 bond authorization, will be sufficient to handle any enrollment growth for the foreseeable future. The district is in the planning phase of construction, and officials expect to complete the projects by summer of 2019.

Including committed fund balance that can be unassigned with the board approval, the district's available fund balance of \$6.2 million is very strong in our view, at 54% of general fund expenditures at fiscal year-end (Aug. 31) 2016. The district reported a deficit operating result of 4% of expenditures in fiscal 2016. The district depends primarily on property taxes for general fund revenue (73%), with state aid accounting for 23% of revenue.

Despite mixed operating results, the district has maintained available fund balances that exceeded 50% of operating expenditures in the last five fiscal years. For fiscal 2016, the district reported a minor deficit due to less-than-budgeted state revenues due to a decline in ADA and to a board-approved drawdown for various one-time capital projects (a bus purchase, a gym floor renovation, an equipment purchase, and various maintenance projects). While the district officials adopted a minor deficit budget \$140,000, or 1% of operating expenditures, the district anticipates finishing the year with a balanced result. The district implemented a cost control plan, which decreased personnel, utility, and supplies expenditures in fiscal 2017. While the district has not adopted a budget for fiscal 2018 due to the legislative special sessions, it plans to adopt a balanced budget and expects to maintain very strong reserves for the next two years.

The district levies a property tax rate of \$1.28 per \$100 of AV, with \$1.17 dedicated to operations and 11 cents dedicated to debt service. With the additional issuance, the district intends to raise the debt service by additional 10

cents and plans to maintain this rate for the next two years.

We consider the district's management practices standard under our Financial Management Assessment (FMA) methodology, indicating the finance department maintains adequate policies in some but not all key areas.

Management uses historical enrollment figures to formulate revenue and expenditure projections, provides a monthly budget status report to the board, and amends the budget as needed. The district also has an investment policy, which it reviews and approves quarterly, and management provides the board with monthly investment reports that include earnings and holdings. The district has an informal reserve target of maintaining \$5 million. The district does not have a long-term financial plan, a long-term capital plan, or a debt management policy.

Debt

As a percentage of market value, we consider overall net debt to be low at 1.4%, but moderate on a per capita basis at \$4,324. Amortization is average, with 59% of the district's direct debt scheduled to be retired within 10 years. Debt service carrying charges were 8% of total governmental fund expenditures excluding capital outlay in fiscal 2016, which we consider moderate.

After this issuance, the district has \$7.2 million of authorized bonds remaining. However, it does not intend to issue this debt within the next two years. As such, we expect the district's debt burden to remain low as a percentage of market value for the next two years. The district does not have privately placed or variable-rate debt at this time.

Pension and other postemployment benefit (OPEB) liabilities

In fiscal 2016, the district contributed its annual required contribution of \$175,000, or 1.3% of total governmental expenditures, toward its pension obligations. In addition, the district paid \$38,000 or 0.3% of total governmental expenditures in other pension and employment benefits in fiscal 2016.

The district provides pension and retiree health care benefits to eligible employees by participating in the Texas Teachers' Retirement System (TRS) and TRS-Care, respectively. A combination of state aid, private grants, and employee contributions cover the district's required contribution in its entirety. As per Government Accounting Standards Board (GASB) 68 standards, employers with benefits administered through cost-sharing, multiemployer pension plans such as TRS must report its proportionate share of the net pension liability. The district's proportion of the net TRS liability as of the most recent actuarial valuation (Aug. 31, 2015) was \$2.1 million. The funded ratio, which consists of the plan fiduciary net position as a proportion of the total pension liability, was 78.43%. Given the low pension and OPEB carrying charges, largely attributed to the special funding situation whereby the state picks up the majority of annual benefit costs, we do not expect postemployment benefit expenses to pressure the district's finances.

Outlook

The stable outlook on the 'AAA' program rating reflects the strength and liquidity of the Texas Permanent School Fund.

The stable outlook on the underlying rating reflects our opinion that the district will likely sustain its very strong finances, which we consider key to maintaining the rating due to a concentrated property tax base. For these reasons,

we do not expect to change the rating within the two-year outlook time frame.

Upside scenario

We could raise the rating if ongoing economic development were to result in a more diverse property tax base.

Downside scenario

We could lower the rating if the district experiences any substantial economic or financial deterioration.

Ratings Detail (As Of July 21, 2017)

Industrial Indpt Sch Dist unlted tax sch bldg bnds ser 2017 dtd 09/01/2017 due 08/15/2032

Long Term Rating	AAA/Stable	Rating Assigned
Underlying Rating for Credit Program	A+/Stable	Rating Assigned

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.standardandpoors.com for further information. Complete ratings information is available to subscribers of RatingsDirect at www.globalcreditportal.com. All ratings affected by this rating action can be found on the S&P Global Ratings' public website at www.standardandpoors.com. Use the Ratings search box located in the left column.

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